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## Floor Plan and Indirect Lending Program

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### Examination Objectives

To determine if policies, procedures, and controls regarding floor plan lending adequately ensure safety and soundness, profitability, and compliance with laws and regulations.

To determine if officers and employees are qualified and performing their duties and responsibilities in a manner that ensures safety and soundness, profitability, and compliance with policies and procedures.

To determine if financial records and management reports provide accurate and necessary information to management and directors.

To determine the adequacy of the audit and the internal loan review function in this area.

To determine compliance with laws and regulations.

To evaluate the floor plan lending portfolio for credit quality.

To evaluate credit standards and control procedures applied to dealer indirect loans and to purchased portfolios of retail paper.

To initiate corrective action when deficiencies exist that could affect safety and soundness or when violations of laws or regulations have been noted.

### Examination Procedures

#### Level I

**Wkp. Ref.**

1. Review scoping material related to this program.

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2. Request the institution to supply:

- Schedule of curtailment requirements for each dealer;

**Exam Date:** \_\_\_\_\_  
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**Reviewed By:** \_\_\_\_\_  
**Docket #:** \_\_\_\_\_

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## Floor Plan and Indirect Lending Program

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**Wkp. Ref.**

- Schedule of approved floor plan lines for each dealer including outstanding balances;
- Delinquent curtailment billing report;
- Drafting agreements and amount of outstanding drafts; and
- Delinquent interest billings, date billed, and amount of past-due billings.

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3. Obtain from the regulator assigned Thrift Activities Regulatory Handbook Section 210, Lending Risk Assessment, reports and schedules applicable to the floor plan and dealer indirect lending areas.

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4. Determine the institution's policies and procedures and if they are sound and consistently followed through:

- Review of policy statements, underwriting guidelines, and manuals;
- Interviews with management;
- Review of minutes (or recap provided by the regulator reviewing minutes) applicable to this area; and
- Review of internal and external audit reports and management letters related to dealer-related credits.

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5. Review the qualifications, capabilities, and expertise of loan officers in relation to their responsibilities. Determine each officer's current lending authority.

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6. For indirect lending, review the adequacy of recourse and repurchase provisions if applicable. Determine whether dealer guarantees provide the institution with adequate protection if the borrower defaults.

**Exam Date:** \_\_\_\_\_

**Prepared By:** \_\_\_\_\_

**Reviewed By:** \_\_\_\_\_

**Docket #:** \_\_\_\_\_

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## Floor Plan and Indirect Lending Program

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**Wkp. Ref.**

protection if the borrower defaults.

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| 7.  | Review adequacy of dealer reserve agreements if applicable.  |  |
| 8.  | Consider rejection rates of loans referred by dealers to determine the independence and adequacy of loan underwriting.   |  |
| 9.  | Determine if the association corrected deficiencies mentioned in prior examination and audit reports.  |  |
| 10. | Determine the scope of the examination based on an evaluation of internal controls and work performed by the internal and external auditors and internal loan review officer. Consult with the regulator assigned to Lending Risk Assessment to determine scope of review. |  |
| 11. | Determine causes of existing problems or weaknesses within the system that present the potential for future problems.  |  |
| 12. | Determine compliance with laws, rulings, and regulations pertaining to floor plan lending and dealer indirect lending.   |  |
| 13. | Complete the General Questionnaire.  |  |

**Exam Date:** \_\_\_\_\_  
**Prepared By:** \_\_\_\_\_  
**Reviewed By:** \_\_\_\_\_  
**Docket #:** \_\_\_\_\_

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## Floor Plan and Indirect Lending Program

---

**Wkp. Ref.**

14. Review Level II procedures and perform those necessary to test, support, and present conclusions derived from performance of Level I procedures.
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### Level II

15. Review the reconciliation of the subsidiary ledgers for floor plan loans to the general ledger. Investigate any large reconciling items.
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16. Using an appropriate sampling technique, select borrowers for examination. Prepare Thrift Activities Loan Review line sheets for dealer loans and retail portfolios. (For details on sampling, refer to Section 209 of the Thrift Activities Regulatory Handbook.)
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17. While completing the procedures listed below, analyze credit files of all borrowers for whom line sheets were prepared for: credit quality, adequacy of loan and collateral documentation, and compliance with the internal loan review policy. Document findings on the line sheets.

- Review the loan files for the following loan underwriting information:
  - Financial analysis and credit history;
  - Current, reliable financial statements;
  - Current auto dealer financial statements;
  - Current memoranda detailing visits to dealership and trends in dealer's operations; and
  - Determine whether the dealer's retail loans are examined periodically for quality.
- Review the loan files for the following documentation:

**Exam Date:**

**Prepared By:**

**Reviewed By:**

**Docket #:**

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## Floor Plan and Indirect Lending Program

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**Wkp. Ref.**

- An underwriting memorandum setting forth required documentation for original loan approval on file;
- Documents that are correctly executed, notarized, etc.;
- Liens filed in the appropriate jurisdiction;
- Title documents matching trust receipts;
- Supplier/manufacturer buy-back agreements;
- Curtailment agreements in compliance with the loan policy. Ascertain any violations of the curtailment agreements; and
- Verification of collateral values.
- Summarize the following:
  - Wholesale agreements between the institution and the dealer;
  - Agreements between the manufacturer and the institution;
  - Evidence that the security interest has been perfected;
  - Details of any guarantees that may be held; and
  - Details of any other collateral held.
- Review compliance with the terms of the loan agreement and with the floor plan lending policy.
- Note exceptions on the worksheet and list the date of the loan, name of the credit, and the dollar amount outstanding.

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18. For past-due loans compare the following and determine any material inconsistencies.

- The past-due loans provided to the examiners;

**Exam Date:** \_\_\_\_\_  
**Prepared By:** \_\_\_\_\_  
**Reviewed By:** \_\_\_\_\_  
**Docket #:** \_\_\_\_\_

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## Floor Plan and Indirect Lending Program

---

**Wkp. Ref.**

- Delinquency reports submitted to the board;
- List of loans considered problem loans by management; and
- Delinquency levels provided on reports to the Office of Thrift Supervision.

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19. Review recent floor plan checks and determine:

- Are inventory checks performed monthly?
- Are there any units not seen in the last 60 days?
- Are floor plan checks rotated among the institution's personnel or audit services at least quarterly?
- Are floor checks performed on a surprise basis?
- Are discrepancies reconciled and explained?

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20. Outside services are often used in servicing dealer loans and in performing inventory floor checks. If service companies are used, determine the following from discussion with management:

- Was a formal contract approved by the proper level of management?
- Were financial statements and references checked?
- Are performance objectives established and monitored?
- Does the local jurisdiction require service company licensing, and is the required licensing on file with the institution?

**Exam Date:**

**Prepared By:**

**Reviewed By:**

**Docket #:**

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## Floor Plan and Indirect Lending Program

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**Wkp. Ref.**

21. Ensure that the Objectives of this Handbook Section have been met. State your findings and conclusions, as well as appropriate recommendations for any necessary corrective measures, on the appropriate work papers and report pages.

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### Level III

22. Select a sample of loans for account balance verification procedures with the borrowers.
23. Perform a physical verification of collateral for selected accounts.

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### Examiner's Summary, Recommendations, and Comments

**Exam Date:** \_\_\_\_\_  
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**Reviewed By:** \_\_\_\_\_  
**Docket #:** \_\_\_\_\_